

MINISTERIAL ADVISORY

COMMITTEE ON

CO-OPERATION

CO-OPERATIVES AND CORPORATISATION

SUBMISSION FROM THE MINISTERIAL ADVISORY

COMMITTEE ON CO-OPERATION IN RESPONSE

TO THE PUBLIC BODIES REVIEW COMMITTEE'S

DISCUSSION PAPER ON CORPORATISATION

(OCTOBER 1991)

NOVEMBER 1991

## INTRODUCTION

1. The basis of this submission is to argue that the current debate on corporatisation in Victoria is based on a misunderstanding about the nature of commercial enterprises and that co-operatives demonstrate the practicality of combining social and economic objectives within commercial enterprises.
2. The Public Bodies Review Committee is currently examining the appropriate form of corporatisation for the State Electricity Commission of Victoria and the appropriate model to be considered in the context of models of corporatisation implemented or being developed for implementation elsewhere; and strategies for continued microeconomic reform of government business enterprises.
3. The Discussion Paper on Corporatisation (October 1991) issued by the Public Bodies Review Committee notes that "the objective of corporatisation is to improve the competitiveness and efficiency of GBES" (par. 13, page 6). It is also noted: "One definition used extensively is that corporatisation means to reorganize a GBE so that, as far as possible, it emulates private sector behaviours and places government enterprise on a commercial footing." (par. 14, page 6).
4. The Ministerial Advisory Committee on Co-operation is concerned to emphasize that co-operatives are also commercial enterprises. By implication the definition of the Public Bodies Review Committee is excluding co-operatives. Co-operatisation of a public utility would place "government enterprise on a commercial footing", but based on emulating "co-operative sector behaviour".
5. In suggesting this co-operative option, MACC is not expressing a preference for the co-operatisation of government business enterprises. Our concern is to establish that cooperatisation is an alternative to privatisation and that cooperatives successfully serve social objectives through commercial activities.
6. Section 11 COMMON GOOD considers whether or not there is a common good and what this means for the ownership and control of business enterprises. Section 111 CO-OPERATION AND CO-OPERATIVES considers how co-operatives differ from public and private enterprises. The Appendix includes the international principles of co-operation.

## THE COMMON GOOD

7. The common good is those economic, political and cultural conditions which are the basis for human living. This would include access to food, housing, clothing and energy, the recognition of a common good has, for instance, the following consequences for energy - all human persons must be considered, all citizens must share in access to energy, particular attention must be given to the energy needs of

low income groups and the state must promote the energy welfare of all citizens.

8. The Discussion Paper on Corporatisation (October 1991) does not discuss the common good but, instead, discusses community service obligations: Community service obligations (CSOs) are imposed by governments on GBEs to satisfy a range of government policies and social goals of a non-commercial nature (par. 157, page 34).
9. The common good, therefore, transcends particular governments and their policies. Political parties are elected by citizens to form governments and control the common resources of the community. Governments do not own these resources but are entrusted with their control during their term of office.
10. It is inappropriate, therefore, to define these common goods as Community Service Obligations. All enterprises involved in the provision of common goods have a duty to the common good. This is traditionally recognised in the public sector but not recognised by orthodox private enterprises. There is an inevitable incompatibility in a corporatised or privatised public utility providing a common good which must be provided on the basis of need rather than capacity to pay.

#### CO-OPERATION AND CO-OPERATIVES

11. The co-operative economic system is an alternative to the public and private economic systems. As noted by the Australian Association of Co-operatives: Co-operatives world-wide differ from companies and the state, by the adherence to six internationally recognized co-operative principles, which define the distinct characteristics of the co-operative model. The social values implicit in the philosophy of co-operation, equality, equity and mutual self-help, underlie the essential principles of co-operative organisations (submission to the Victorian Government on Proposed Changes to the Co-operatives Bill, 18 July 1991, p.2).
12. Co-operatives have a critical role in the Victorian economy - 70% of Victoria's milk is produced by co-operatives, 85% of the State's fertilizers, 60% of the processing and marketing of dried fruit and 75% of the fishing industry. Of the top 500 Australian exporters, 20 co-operatives contribute \$13 billion in export earnings - about 2% of total export income. Of this \$13 billion, the majority is controlled by six co-operatives in Victoria - \$588 million.

13. There are fundamental differences between co-operative and private enterprises as summarised below:

Characteristics	Co-operative	Company
Ownership	Open membership	Shareholding based on wealth
Control	Majority of shareholders (members)	Majority of shares
Capital	Serves members	Gain for investor
Objective	Profit (surplus) as a means to an end	Profit as an end in itself
	Management responsible to members	Management responsible to capital

14. As this table illustrates, co-operatives combine the social objectives of public enterprises with the economic objectives of private enterprises. They are, therefore, an appropriate model for the delivery of a common good.
15. The co-operative model is an alternative to the prevailing models of public, private and corporate essential service utilities such as the SEC. The co-operative model provides the advantage of both the private (efficiency) and public (service) models while avoiding the disadvantages of the private (profit maximisation) and public (bureaucracy) models.
16. The scope for the co-operatisation of public enterprises is as wide as is considered necessary and desirable. In N.S.W., for example, there are three co-operative hospitals which are economically viable alternatives to public or private ownership and controls of hospitals - Hurstville Community Co-operative Hospital Limited, Poplars Community Hospital Co-operative Ltd and Yeoval Community Hospital Co-operative Ltd.
17. Co-operatisation is critically dependent on the membership of co-operatives. The ultimate viability of a co-operative depends on the membership understanding, accepting and implementing co-operative philosophy and principles. While it is argued that the corporatisation of public enterprises requires a change of culture, a corporatised enterprise is not economically dependent on the personal commitment of its workforce.

18. Economic incentives could purchase the required productivity and efficiency of workers but not their personal commitment to the philosophy and principles of the corporatised enterprise. Without the possibility of a personal commitment of members, then, the co-operatisation of a current public enterprise is not advisable.

#### CONCLUSION

19. The possibilities for co-operatives, however, does not automatically fit within the dominant political and economic paradigm which assumes the desirability and superiority of public or private sector structures. Even when it is recognised that there is a potential co-operative application, it is assumed that the possibilities are limited. In 1982, for instance, the Public Bodies Review Committee supported the "notion" of "allowing small consumer co-operatives to run their own shows" under "the umbrella of either a Municipality or Water Board". It was recommended : Water Boards and Municipalities to delegate to consumer co-operatives the day to day operation of any necessary water or sewerage services in the cases where the total number of consumers served is no more than 100 or the total number of connections is no more than 30 whichever is the greater. In such cases consumer co-operatives must not be empowered to enter into any contract, legal agreement or expend funds beyond that specified by the Municipality or Water Board concerned (Seventh Report to the Parliament: Future Structures for Water Management. Volume 2 - Final Report : Implementation Issue Arising from Regional and Local Structures for Urban Services, H20-21). A brief description of Victoria's small water co-operatives is appended.
20. The exclusion of the co-operative option is exemplified in the work of the Future Management Review of the Rural Water Commission which has released a discussion paper which "sets out a range of seven options for structuring the activities presently carried out by the Rural Water Commission. These options cover the existing structure and alternatives, including extensive privatisation".(p.1) Option E in the discussion paper involves State owned headworks wholesaler and fully privatised distribution. It is proposed that "All distribution would be handled by a number of fully independent and privately owned regional irrigation companies. Some shares in these private companies would initially be offered on a preference basis to irrigators within the particular region but this would not preclude a significant holding by appropriate companies nor would it preclude shareholders selling their shares - though some restrictions might be imposed to protect significant localised interests".(P.32) It is argued that "the vesting of true ownership of regional distribution channels and the associated independence of decision making, flexibility market responsiveness and cost controls associated with the profit motive would introduce a totally new dynamic to the retailing and management of irrigation deliveries and other water resources".(p.32)

21. A further option not set out in the discussion paper would be a "fully independent" and co-operatively "owned regional irrigation" co-operatives. The local members ownership of these co-operatives is the only guarantee that would protect significant localised interests". Co-operatives share with private companies "the profit motive" and "the associated independence of decision making, flexibility, market responsiveness and cost controls". In the background section of the discussion paper the pressures on the Rural Water Commission to improve its performance are outlined. These include "pressures from customers for the RWC to justify its cost structures and to make its services more responsive to customer needs, and for increased customer accountability in decision making?(p.2) Irrigation co-operatives would be owned and controlled by its customers who would, therefore, be responsible for the responsiveness and accountability of the co-operative.

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Gutteridge Hartig and Davey, ACIL Australia and Ernst and Young  
Rural Water Commission Future Management Review  
Options Paper 24 October 1991.

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## **VICTORIAN WATER CO-OPERATIVES**

### **CARLYLE IRRIGATORS CO-OPERATIVE SOCIETY LIMITED**

Objectives include to hold an irrigation licence and provide pumping facilities for irrigation to members farming land. At the 30 June 1990 there were six members holding 7,480 shares with a paid-up capital of \$14,960. Receipts during the year were \$15,201 and payments \$16,461.

### **CROWLANDS WATER SUPPLY CO-OPERATIVE LIMITED**

Objectives include to finance the construction and maintenance of a pipeline, pump and water storage tank to supply water to properties located in the Crowlands district. At the 31 March 1991 there were 27 members holding 135 shares with a paid up capital of \$13.50. Receipts during the year were \$3,172.18 and payments \$3,295.39.

### **HOURIGAN SUB-DIVISION WATER SUPPLY CO-OPERATIVE LIMITED**

Objectives include maintaining a pumping unit, pipeline and storage tank for the purpose of supplying water to houses and land in the Milawa district.

As of 23 July 1991 there were 14 members holding 70 shares with a paid-up capital of \$70. Receipts during the year \$3,571 and total payments \$3,199.

### **KARDOOC CO-OPERATIVE LIMITED**

Objectives include to provide and carry out any community service including transport and the supply of water and electricity to provide and instal plant, fittings required in connection with any community service. At the 31 March 1990 there were 7 members holding 1,800 shares with a paid-up capital of 1300. Receipts were \$9,073 and payments \$8,885.

### **KILLINGWORTH WATER CO-OPERATIVE LIMITED**

Objectives include to finance the construction, installation and maintenance of a pipeline and equipment to supply water to properties located in Killingworth Road and Early Road, Yea. As at 30 June 1991 there were 7 members holding 7 shares with a paid-up capital of \$70, there were payments of \$1244 during the year.

LAURISTON AVENUE  
WATER SUPPLY  
CO-OPERATIVE LIMITED

Objectives include to finance the maintenance of a pipeline and pump to supply water to properties located in Lauriston Avenue, Milawa. At 30 June 1991 there were 18 members holding 110 shares with a paid-up capital of \$110. Receipts during the year were \$4005 and payment \$3557.

M W IRRIGATION  
CO-OPERATION  
LIMITED

Objectives include supply of water through the pumping of water to the storage lake from Murray River for the use of members. As of 31 March there were 42 members holding 98,531 shares with a paid-up capital of \$66,016. Receipts during the year were \$66,606 with total payments \$69,897.47.

P.B.E. WATER SUPPLY  
CO-OPERATIVE LIMITED

Objectives include to finance the maintenance of a pipeline and pumping equipment to supply water to properties located in Peninsula Bay Estate, Flinders. At the 30 June 1990 there were 14 members holding 75 shares with a paid up capital of \$75. Receipts during the year were \$1817.40 and payments \$2235.67.

PEECHELBA WATER SUPPLY  
CO-OPERATIVE LIMITED:

Objective include to finance the supply of a pumping unit, the construction of a pipeline and storage tank to supply water to houses and land in the Peechelba district. As at 22 July 1990 the co-operative had 44 members holding 57,000 shares with a paid-up capital of \$55,047.09. Receipts during the year \$12,946.23 and total payments \$5,603.69.

PORTER'S ROAD WATER STORAGE  
CO-OPERATIVE LIMITED :

Objectives include to operate and maintain a continuing supply of water for stock and domestic purpose to lots 1-7 and lots 9-18 inclusive on Plan of Subdivision No.115622 Parish of Benalla. As at 31 May 1989 the co-operative had 17 members holding 85 shares and a paid-up capital of \$85. Receipts during the year \$2,639.56 and total payments \$2,541.87.

RIVERVIEW WATER  
STORAGE CO-OPERATIVE  
LIMITED:

Objectives include to administer the operation of water supply for its members. As at 31 March 1990 there were 20 members holding 100 shares and a paid up capital of \$100. Receipts during the year \$5,906.97 and total payments \$7,601.88.



ROCKBANK NORTH WATER SUPPLY  
CO-OPERATIVE LTD.:

Objectives include to finance the construction and maintenance of pipelines, pumps and water storage tanks to supply water to properties located in the Rockbank North district. As at 20 July 1989 there were 54 members holding 83,700 shares with a paid-up capital of \$8,370. Receipts during the year \$24,218 and total payments \$27,966.

WAKITI IRRIGATORS  
CO-OPERATIVES SOCIETY  
LTD:

Objectives include to establish, maintain and control a permanent irrigation system on the Wakiti Lagoon and to provide works for the pumping of water from the Goulburn River into the lagoon to meet the requirements of the members for the irrigation of their lands and to purchase or otherwise acquire agricultural machinery implements and requisites on behalf of its members. As of 26 September 1991 there were 23 members holding 8844 shares with a paid-up capital of \$17,688. Receipts during the year \$8144.56 and total payments \$6,531.29.